

# ASX

## ANNOUNCEMENT

15 May 2012

ASX : EHR

### Operations Update

Earth Heat Resources Limited ('Earth Heat' or 'the Company') is pleased to provide the following update for its shareholders and stakeholders of its ongoing operations at the Company's key project, Copahue in Argentina.

#### ENGINEERING

As previously released to the market, Alstom is providing a significant contribution to the Engineering, Procurement and Contract process ('EPC') via an exclusive arrangement. Given Alstom's size and scale, their potential involvement in the project from an EPC perspective is a major boost in confidence for key stakeholders.

The Engineering and Design process involves a critical decision on the technology to be employed for Copahue (binary/direct cycle), which has a material impact on capital costs principally. Equally, the presence of field teams in and around the project area has enabled the identification of multiple sites for the installation of any potential power plant, which again affects the design of the steamfield program (wells and pipelines) and therefore overall costs.

The combined team working on the Copahue project is approaching 20, with a significant weighting towards engineering at this stage of the process.

The next major step for Earth Heat is the decision, on receipt from Alstom of the budgetary offer, whether to proceed with the technology and EPC solution presented. The receipt of this budgetary offer is expected around the end of May 2012.

#### POWER PURCHASE AGREEMENT

The critical remaining element to be crystallised for shareholders and stakeholders is the final power purchase agreement ('PPA'). The Company has received an additional indication of demand, from a very large global company, which could significantly change the size and scope of the project. At present, no permission has been given to Earth Heat to name the company involved. At this point in time, it is the intention of the Company to turn its attention to this particular large customer and negotiate a final PPA. Earth Heat is preparing a full draft

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agreement that will be the centrepiece for final negotiations, which will form the final piece of the Project Finance formal close process.

## **GEOSCIENCE**

All members of the Geoscience team were mobilised back to their offices following Easter. A number of gas and liquids samples were acquired on this trip and have recently been received in New Zealand for full processing and analysis.

The processing of these samples is expected to take a further three weeks and once completed, will form the basis of reservoir modelling which feeds directly into the engineering study.

Equally, these results will be fed directly into the resource model, which may have an impact on the overall CanGEA compliant statement released previously.

Considerable additional work was undertaken by the geoscience team while in the field to properly understand the main controls on the resource, which will be of significant benefit in the well location planning and design process, which is beginning shortly.

## **CORPORATE**

While the world markets have been shaken by another bout of risk aversion, there are still several options being considered by the Company. Clearly macro activity and declining equity values have a significant impact on the chances of success for any specific set of negotiations. At this time, Earth Heat is negotiating on a structured product that would pay for the fourth development well, for additional hybrid equity to be raised, and with potential farm-in partners. As part of this process there have been discussions about the sale of a stake in, or the totality of, projects within the Earth Heat portfolio. While no specific outcome can be guaranteed, the board continues to investigate every possible angle.

Following the recent resignation by Mr Norm Zillman, a search for a suitably qualified, value accretive Director has begun and more guidance will be provided on this over the coming eight weeks.

**Earth Heat Managing Director Torey Marshall commented,** "As a company we focus on the job of being the first Australian junior to install a geothermal power plant, and the first in South America to do the same. Like every member of the market, we have challenges, but unlike most, we have a direct path to achieve this goal through being able to access project financing, and we intend to push to the limit in order to achieve first revenues. "

\*\*\* Ends\*\*\*

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